

## Fiscal Policy

Budget 2010 answered the Canadian Chamber's call to stay the course on the recovery plan, lay out a strategy to return to balanced budgets over the medium term without raising taxes, and focus on making Canada more competitive in the international marketplace. With respect to the latter, the elimination of all remaining tariffs on manufacturing inputs and machinery and equipment is particularly noteworthy, as is the emphasis on a Digital Economy Strategy and removing unnecessary job-killing regulations that hit small businesses particularly hard.

Budget 2010 provided some details on how the government plans to curb expenditure growth to rein in deficits over the next five years. The government proposed to curb outlays in a number of areas (including defence, international assistance, and public administration), undertake a full-scale review of all programs, and eliminate tax loopholes.

Total program spending is projected to grow 1.6 percent annually over the next four fiscal years. Such strict control cannot be taken for granted. It is well below the recent trend rate of about seven percent per year, and implies a decline in real per capita terms.

Budget 2010 projects the federal debt (accumulated deficit) to increase from \$566.7 billion in fiscal 2010-11 to \$622.1 billion in 2014-15. Public debt charges (interest on the debt) are projected to consume \$40.6 billion by 2014-15, or about 14 percent of budgetary revenues. This is equivalent to what the federal government anticipates it will collect in corporate and non-resident income tax combined. The federal debt-to-GDP ratio is projected to fall from 35.4 percent in 2010-11 to 31.9 percent in 2014-15.

Changes in economic assumptions affect the projections for revenues and expenses. Finance Canada estimates that a one-percentage point decrease in real GDP growth reduces the budgetary balance by \$3.1 billion in the first year, \$3.4 billion in the second year and \$4.4 billion in the fifth year. Tax revenues from all sources fall by a total of \$2.5 billion in the first year, \$2.7 billion in the second year and \$3.3 billion in the fifth year. EI premiums decrease as employment and wages and salaries fall. Expenses rise, mainly reflecting higher EI benefits and higher public debt charges. See table below.

### Estimated Impact of a One-Year, One-Percentage Point Decrease in Real GDP Growth on Federal Revenues, Expenses and Budgetary Balance (Billions of dollars)

	Year 1	Year 2	Year 5
<b>Federal Revenues</b>			
Total Tax Revenues	- \$2.5	- \$2.7	- \$3.3
EI Premiums	- \$0.1	- \$0.2	- \$0.3
<b>Federal Expenses (major transfers to persons and other program expenses)</b>	\$0.4	\$0.4	\$0.3
Public Debt Charges	\$0.0	\$0.1	\$0.5
<b>IMPACT ON BUDGETARY BALANCE</b>	- \$3.1	- \$3.4	- \$4.4

Note: Numbers may not add due to rounding

With changing demographics and the need to sustain an aging population, the cost of government programs will be increasingly shouldered by a shrinking percentage of workers. We must get our fiscal house in order to gain the economic flexibility needed to prepare for the jobs of tomorrow and to tackle areas that are crucial to our long-term competitiveness, including high marginal personal income tax rates (especially as they apply to individuals with modest incomes).

## **Recommendations**

That the federal government:

1. Ensure that the debt-to-GDP ratio falls below 30 percent by 2015.
2. Refrain from hiking taxes, or renegeing on promised corporate tax rate reductions, to return to balanced budgets by 2015.
3. Restrain program spending growth to balance the budget over the next five years, i.e. about 1.6 percent per year.
4. Broaden the scope of spending review beyond direct program expenses.
5. When undertaking a full-scale review of all programs, ask the following questions:
  - Does the program or areas of activity continue to serve the public interest?
  - Is there a legitimate and necessary role for government in this program area or activity, or could the private/voluntary sectors play a greater role in whole or in part?
  - Are Canadians getting value for their tax dollars?
  - If the program or activity continues, how could its efficiency and effectiveness be improved? For example, can delivery costs be lowered through intelligent use of technology, public-private partnerships or third-party delivery?
  - Is the federal government acting within its well-known constitutional responsibilities?
  - Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces/territories?